what does the new U.S. tax law mean for mobility?

On Dec. 22, 2017, President Donald Trump signed into law a significant reform of U.S. tax code. Plus has been tracking this legislation and what it means for corporate mobility programs, and below we've laid out some of the key things your team should know. This is not a substitute for financial and legal advice—you definitely should be talking to your tax and legal partners about this law, too!

the corporate tax rate has dropped, but other costs will go up

Because the corporate tax rate has dropped 14 points to 21%, companies will pay much less corporate tax overall. However, the law will also add costs to most companies' mobility programs moving forward. For companies that provide tax assistance (a.k.a. "gross-up") for taxable relocation expenses, these amounts will now increase if a company makes no policy changes regarding tax assistance support. We'll dig into why in the next sections.

moving expenses are no longer excludable

The law includes a repeal of the deduction and exclusion for moving expenses, effective Jan. 1, 2018. This means:

- The costs for packing, shipping and delivering household goods, autos and pets are now taxable.
- The first 30 days of storage, along with the costs of moving items in and out of storage, are now taxable.
- Final move (en route) trip costs that were previously non-taxable (excludable) — think a portion of mileage reimbursement and airfare, for instance — must now be reported as taxable income.
- Duplicate housing interest and taxes, loan origination fees and points may also be taxable.

The repeal makes the time and distance test, which qualified expenses as excludable, irrelevant now. The commute increase of 50 miles is no longer a qualifier and neither is the time test, where a full-time employee would have to work at least 39 weeks during the first 12-month period after arriving in the new location.

tax assistance costs are likely to increase

Employers still have the same basic principle to consider when deciding how to treat taxable expenses: either gross up at some level or withhold the taxes owed from the employee. But, as mentioned previously, there is an increased amount that is now considered taxable income. However, offsetting this slightly, the flat supplemental withholding rates are likely to change from 25% to 22% on payments under $1 million, and from 39.6% to 37%

on payments over $1 million. This will allow a company to spend slightly less (on gross-up) for each taxable dollar.

home sale programs are not affected

There is nothing in the law that changes the current treatment of relocation home sale programs. Worldwide ERC® noted in a December government affairs update: "Costs incurred by employers/third parties in disposing of transferee homes purchased in a bona fide, fair market value transaction will continue not to be taxable to the transferee." The current exclusions for foreign earned income and housing are also unchanged.

employees to feel unique impacts

The more challenging work to be done is to consider how each relocating employee is going to be impacted. New interest rates at different levels and the changing of specific deductions will alter the impact for each employee. There are some changes that must be considered regarding itemized deductions and benefits.

The mortgage interest deduction threshold has been reduced to $750,000 for mortgages from Dec. 15, 2017, onward. Home equity lines of credit debt (HELOC) are no longer deductible. There is also a $10,000 cap on state and local property, sales and income taxes, which will likely have an affect on those living in high-tax states. This could also impact recruitment of talent to those locations.

and what about lump sums?

Lump sum cash payments that are grossed up will now cost a company slightly less for that gross-up amount. Lump sum payments where the company deducts taxes from the payment will result in a slightly greater net payment to the employee since the company will withhold at a slightly lesser percentage. The employee, however, will not be able to deduct those items that were previously excludable or deductible when filing individual taxes, which will likely create a negative net impact for these employees.

looking ahead

The new tax law affects both company policies and compliance requirements. Most every company and relocating employee will be impacted in some way. It will be important to work with your relocation management

partner and tax partners to review the impact to both your program and your employees. Start by considering these seven initiatives moving forward:

1. Work with these partners to reconsider your 2018 budget projections based on your anticipated volumes and policies.

2. Consider whether any changes will be made related to gross-up methodology.

3. Audit and revise any policies or program documents that reference taxability, rates, gross-ups and tax assistance. Many "core-flex" policies had been based on the fact that the core elements were those that were not taxed, so this may cause reconsideration of how your core-flex policy is structured.

4. Revise U.S. domestic cost projections and any international assignment cost projections that may touch the U.S. to account for the increased tax costs.

5. Identify and consider offering tax counseling to any U.S. inbound or outbound employees to educate them on the changes and impact on their tax situation.

6. Educate stakeholders within your organization about the changes and impending consequences.

7. Be prepared to reconcile tax gross-ups done in the first few months of the year so that once payroll systems have been adjusted, everything is aligned with the changes and requirements for 2018.

Have additional questions about the new tax law and how it will impact your company? Like we said earlier, it's a good idea to connect with your tax and legal teams. But you can also head to our website to connect with us, and learn how Plus can help you manage a fully compliant mobility program in 2018 and beyond.

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